

GREAT LEADERS
**RAY
KROC**



The Editors of New Word City



GREAT LEADERS
**RAY
KROC**

The Editors of New Word City



You may not want to share this information with your teenagers: Ray Kroc - the visionary behind McDonald's and one of the most successful entrepreneurs in American history - was a high-school dropout. And the man who changed the way the world eats didn't open his first restaurant until he was in his fifties.

Clearly, Kroc didn't follow the book - he wrote a new one. The saga of his ascent from paper cup salesman to one of *Time* magazine's 100 most important people of the twentieth century is a vivid lesson in leadership, drive, and common sense.

Sundae School

He never gave up music. In his teens, he and two friends opened a small music store. It didn't last long, but his entrepreneurial spirit kept growing. He also had a job at an uncle's drugstore soda fountain. According to *Grinding It Out*, Kroc's entertaining autobiography, "That was where I learned that you could influence people with a smile and enthusiasm and sell them a sundae when what they'd come for was a cup of coffee."

Kroc saw life as a learning process; he soaked up business and sales lore like a human sponge. School was another matter. The only thing he enjoyed was debating; he loved getting attention as he smoothly won arguments and influenced people. In one memorable debate, he was called upon to defend smoking before an audience clearly against him. After his opponent attacked the habit, Kroc asked his audience to picture his grandfather, a Bohemian immigrant near the end of his hardworking life. One of his few remaining pleasures was sitting in an easy chair puffing on his pipe. "Who among you," Kroc asked, "would deprive him of one of his last comforts on earth, his beloved pipe?" Point

made. Another sales lesson for young Kroc: When it comes to persuasion, emotions usually trump intellect.

When the United States entered World War I in 1917, Kroc was a fifteen-year-old dropout selling coffee beans door-to-door. He lied about his age and signed up with the Red Cross to be an ambulance driver. While training in Connecticut, he was puzzled by another trainee who never joined the off-duty sport of chasing local girls. He always stayed in camp, drawing pictures. Years later Kroc got it. The solitary doodler was young Walt Disney.

The war ended before Kroc shipped out, so he returned to the Midwest and hit the road selling ribbons and notions. He set up shop in hotel rooms, invited store owners in, and learned to size up their needs in a flash. "No self-respecting pitcher throws the same way to every batter," he wrote in his autobiography, "and no self-respecting salesman makes the same pitch to every client." Though still a teenager, Ray Kroc was on the way to earning the equivalent of a master's degree in marketing - and it had all started with the sundae school.

Kroc also paid a lot of attention to his appearance. Lean and compact, he wore his hair slicked back and parted in the middle, just like Rudolph Valentino, the 1920s heartthrob of silent film fame. Early photos show Kroc as a natty dresser, with a wry smile that seems to say, "Stick with me, we'll make money and have fun doing it."

His own path to money and fun included gigs as a piano player. His musical career took a life-changing turn when he played at a lakeside summer resort in Michigan. There he met Ethel Fleming, his first wife. When they married in 1922, Kroc was twenty, practically a child groom, but he

was old enough to land a job selling Lily brand paper cups. He was the proverbial young man in a hurry.

A Streamlined Speakeasy

Ray Kroc continued juggling two careers - selling paper cups during the day and playing piano on a local radio station at night. His daughter Marilyn was born in 1924. Paper cup sales slowed drastically in the winter, and Kroc caught Florida fever. In the early 1920s, Florida exploded with a real-estate boom, complete with overbuilt beach houses and a mortgage bubble straining to burst. Kroc took a six-month leave from Lily, packed up his family, and headed to Miami in a Model T - a rough trip nearly a quarter century before interstate highways.

Kroc got a job playing piano with a big dance band at a fancy speakeasy on an island off Miami.

The club was surrounded by a high hedge with a gate; if federal agents showed up, the doorman pressed a button alerting everyone inside to banish the booze while he stalled the feds. One night, he couldn't stall them long enough. Kroc was arrested and spent three hours in jail. He wasn't bothered; every business has its hazards. What he took away from the job (in addition to a police record) was the speakeasy's streamlined way of doing business. All drinks were a dollar each, and the menu offered only three items: lobster, steak, and duck. The simplicity impressed Kroc and, years later, influenced his first motto for McDonald's managers: KISS ("Keep It Simple, Stupid").

Kroc went back to Chicago and Lily, which soon merged with Tulip cups. Over the next decade, he honed his skills as a top salesman supervising fifteen others - and this was during the Great Depression. His trademarks were straight-

arrow honesty and the ability to turn a customer into a partner. If he knew the price of cups was about to rise, he alerted customers ahead of time so they could put in a big order before it happened. His bosses weren't happy with this practice, but Kroc was too valuable to let go. For one, he kept his sales force in top shape - clean, sharp, well-dressed. He insisted, as he later recounted, "The first thing you have to sell is yourself."

Multimixer's Multitasker

Ray Kroc's paper cup customers included many soda fountains and ice cream shops; his interest in this nascent fast-food market grew. Milkshakes were especially popular, but the mixers then in use frothed only one shake at a time and often couldn't keep up with demand. Help was on the way. One of Kroc's customers, an ice cream shop owner, invented a machine called the Multimixer that mixed five shakes at once. It changed Ray Kroc's life. He became Multimixer's sole national distributor. Ethel Kroc was furious that her husband would trade the security of Lily Tulip for this gamble. But Ray Kroc trusted his instincts - and the marriage suffered a breach from which it never recovered.

Kroc became a one-man band, traveling all over the country, lugging his heavy sample case, pitching this amazing new contraption at trade fairs, conventions, big stores, small stores, any place he could find a potential buyer. The hours and travel were brutal, and nothing less than his future was at stake.

In his book, Kroc describes his technique for clearing his mind and getting a crucial good night's sleep, "I would think of my mind as a blackboard full of messages, most of them urgent, and I practiced imagining a hand with an eraser wiping that blackboard clean. I made my mind completely

blank. . . . Then I would relax my body, beginning at the back of my neck and continuing on down, shoulders, arms, torso, legs, to the tips of my toes. By this time, I would be asleep.” He would then wake up in the morning fresh and rested.

By the early-1950s, Kroc made a good living selling Multimixers, but he was hardly wealthy. Then he heard about a drive-in restaurant in San Bernardino, California, with such a demand for shakes that it kept eight Multimixers whirring all day long. The place was owned by two brothers named McDonald. Kroc decided to fly out and take a look.

After World War II, the United States finally shook off the Great Depression and rediscovered prosperity. Postwar jobs were plentiful, suburbs blossomed, people bought cars for commuting to work, and soon we were a nation on wheels, paving the continent and creating a highway culture. From coast to coast, families loved to pile into their new Chevys and Fords to find bargain appliances at new shopping centers and quick meals at new drive-in restaurants.

The epicenter of all this was California. The state’s population surged, releasing enormous cultural and economic energy. Drive-in restaurants sprouted up and down the state’s ever growing highways. Most drive-ins offered full menus, plus carhops to bring food and a tip-worthy personality to your car. Who would ever change a thing?

Answer: Maurice and Richard McDonald. At their own restaurant in San Bernadino, the brothers got rid of carhops, moving customers to more easily served tables inside. They (shades of the Miami speakeasy) pared the menu to the basics: burgers, fries, and shakes - all

prepared in efficient assembly-line fashion. The food arrived quickly, and the simple set-up emphasized quality and cleanliness. The burgers were delicious, the fries crisp, the shakes thick, the whole place immaculate. And the enormous volume of customers allowed rock-bottom prices, attracting even more customers. When Kroc first visited the McDonalds' operation in 1954, he felt "like some latter-day Newton who'd just had an Idaho potato caromed off his skull."

Kroc did the math - tens of millions of increasingly mobile Americans loved fast, delicious, well-priced food. He quickly put his sales skills to work and convinced the brothers to give him nationwide franchise rights to McDonald's and ownership of the name. In return, they received a small percentage of all profits.

Cooking Up McDonald's

Ray Kroc immediately got to work and, on April 15, 1955, opened his first McDonald's in Des Plaines, Illinois, not far from his hometown. The restaurant did well, even though it began without indoor seating.

But Kroc persevered, slowly adding new restaurants and building an extraordinary management team that stuck with him for decades.

Kroc hired people based on his instincts, caring far more about an applicant's energy and passion than any resume. June Martino, for example, interviewed for a bookkeeping job wearing a faded coat and looking as if she'd missed a few meals. But she "had a presence that conveyed integrity and a restless native ability . . . The fact that she had no bookkeeping experience bothered me not at all." Twenty years later, Martino was one of the highest ranking female

executives in the country - and thanks to McDonald's stock, a very wealthy woman. This is Kroc leadership writ large - time and again during his career he hired people not for their credentials but for their innate capabilities. His instincts nearly always paid off. As he well knew, people given a chance will work far harder to prove themselves than those with a sense of entitlement.

Since the majority of individual McDonald's restaurants were franchises granted by Kroc and his team, recruitment, financing, and real-estate issues were complex, time-consuming, and required obsessive attention to the fine print. In addition, when one of the restaurants did open, the royalties paid to headquarters were often small, at least at the start. So until McDonald's went public in 1965, cash was tight. But Kroc and everyone working with him sensed they were on to something big. The key was building volume and keeping costs low.

Kroc took what the McDonald brothers had started and went big. Everything from the fat content of the hamburger patties, to the frying time and temperature of the French fries, to how much ketchup went on each burger, was methodically analyzed and standardized. Equipment was designed so that anyone could operate it with little training. Kroc was aiming for absolute consistency across the chain - when you walked into a McDonald's you knew exactly what you were getting - and he succeeded.

To keep costs low, he forged lasting alliances with his suppliers - bakeries, meat packers, potato farmers, and packaging manufacturers - promising them enormous and steady orders in return for low prices. Harking back to his days as a paper cup salesman, he had no interest in adversarial relationships, was not litigious, and always stressed the positive. His mantra was Quality, Service,

Cleanliness, and Value - to say he was obsessive about these would be an understatement. He was often observed hosing down a parking lot or greeting customers. He often said, "I believe in God, family, and McDonald's - and, in the office, that order is reversed."

By 1959, the McDonald's chain included 100 outlets across the country, a testament to Kroc's brutal workload. His passion for success had a price: It ended his marriage. He and Ethel agreed to divorce. Soon after, he visited St. Paul and dined at a restaurant that featured an attractive blonde pianist named Joan Smith. Kroc was immediately smitten. Since Joan was both married and a practicing Catholic and Kroc's own divorce wasn't final, they didn't get any further than flirting. In fact, it would be almost ten years - and another failed marriage for Kroc - before they finally wed on March 8, 1969, at Kroc's ranch in Southern California.

During all those years, Kroc carried a torch for Joan; his second marriage was little more than an attempt to assuage his loneliness. In his book, he describes his feelings after he calls Joan and she tells him that she isn't ready to leave her husband. "So her answer was no. . . . A giant fissure cracked the concrete of LaSalle Street, and our office building crumbled into it as thunder rolled and lightning cracked over the smoking ruins! I was the only one who felt it, of course, but that made the agony a hundred times worse." In the singular case of Joan Smith, Kroc had found perhaps the one woman capable of evoking the same passion he brought to his work. As usual, his instincts were right - after their marriage, she became his steadfast partner and soul mate for the rest of his life.

In 1961, Kroc bought out the McDonald brothers for \$2.7 million. The chain started advertising aggressively. Kroc was a great believer in promotion and public relations, and, over

the decades, McDonald's has spent billions on television and print ads, radio campaigns, billboards, even parade floats, high-school bands, games and promotions, and, of course, the ubiquitous Ronald McDonald. Kroc was methodically integrating McDonald's into America's cultural, psychic, and culinary DNA. As he saw it, taking the kids to eat at McDonald's provided an epicure's entrée plus a cultural dessert. It connected families to something big, warm, tasty, and fun.

During this period Kroc founded that esteemed institution of higher learning, Hamburger University. Hamburger U. awarded its graduates a Bachelor of Hamburgerology degree with a minor in French fries. It's easily the stuff of satire and parody, of course, but Kroc was deadly serious. Attendance at Hamburger University was mandatory for anyone who wanted to open a franchise or have a management career at McDonald's. Students learned every aspect of running a McDonald's, from cleaning the restrooms to preparing every item on the menu. It was also a great place to build relationships and foment and share ideas and innovations. Today, Hamburger U. has a sylvan campus on the grounds of McDonald's Oak Brook, Illinois, headquarters - and it remains a serious learning institution.

Also in the early 1960s, Kroc moved to Los Angeles, although he spent one week a month back at Chicago headquarters and at least as much time on the road. Success followed success, with hundreds of new restaurants opening. The menu was expanded, and breakfast was added at some outlets. The Egg McMuffin was invented in 1975 and became a classic. As he readily admitted, Kroc had his share of setbacks and bad ideas, among them a burger of his own concoction - the Hulaburger, a piece of pineapple surrounded by two slices of cheese on a bun. But there was no doubt that Ray Kroc was having a real impact

on American life. And he inspired and forged that crucial emotional connection that all great leaders do - he turned humble hamburgers and fries into something akin to a religion for just about everyone who worked for or with McDonald's.

The Management Food Chain

Ray Kroc had firm ideas about management. He wanted power to reside far down the food chain, so to speak - as close as possible to the restaurants themselves. He believed that a company's challenges and opportunities were best understood by front-line managers who interacted with customers every day and knew what was really happening. Kroc also believed that if he valued a person enough to hire him or her, the person must be entrusted with real authority. Even if the individual made a few mistakes, Kroc assumed the individual would learn and grow, driven by a need to prove Kroc's faith was justified. As usual, his shrewd grasp of motives and incentives was a catalyst in his company's growth.

Kroc welcomed dissent, saying, "If a corporation has two executives who think alike, one is unnecessary." Kroc also started to actively recruit black and female franchise owners. Although his politics tilted to the right, he was a populist at heart. He loathed snobs, understood what it meant to have to work hard to feed a family, and he believed in equal-opportunity opportunity. Many volumes have been written on Ray Kroc, none of which remotely accuse him of dishonesty, hypocrisy, or condescension. As for being tough, fierce, and unrelenting - well, that's another matter.

McDonald's went public in 1965 at a price of \$22.50 a share. It hit \$30.00 before the day was out, and \$50.00

within a month. Kroc was now a wealthy man. In the next decade, outlets sprung up across the United States, then Canada, and then the world. Ray Kroc was a famous tycoon, much in demand for speeches and appearances.

In the United States, McDonald's moved from rural areas and suburbs into cities - to downtowns, to middle-class neighborhoods, and to the inner cities. These inner-city branches were minority-owned and prided themselves on community outreach, sponsoring scholarships, and rewarding young employees who stayed in school. In fact, during the violent riots in South Central Los Angeles in 1992 that followed the acquittal of the L.A. police officers who had been videotaped beating an unarmed Rodney King, McDonald's restaurants were spared while stores and buildings around them were torched. This was a powerful testament to the respect and affection the company had earned in the African-American community.

Other Franchises and Philanthropies

In his seventies, revered and enormously wealthy, the ever-restless Ray Kroc turned his sights to a long-held dream - to own a major-league baseball franchise. In 1974, he bought the San Diego Padres, and, at the very first home game that season, he did something that was quintessentially Kroc - and ignited a storm of controversy. After elaborate opening ceremonies in which he was hailed a local hero, his team took to the field and played miserable, error-ridden baseball. Incensed, Kroc stomped down to the public-address booth, grabbed the microphone, and spoke to the fans, first introducing himself, thanking them for coming, and then bellowing, "The bad news is that we are putting on a lousy show for you. I apologize for it. I'm disgusted with it. This is the most stupid baseball playing I have ever seen!" Well, the sports world went into an uproar, and Kroc

was roundly criticized. Did he have any regrets? "The answer is hell no! I only regret that I didn't lay it on them a lot harder . . . I also introduced a novel concern to baseball. It was my insistence that customers receive a quality product for their money."

Kroc's other passion during the last decade of his life was philanthropy. As he put it, "I've never seen a Brinks truck following a hearse. Have you?" Both he and Joan loved to give money away. They established the Kroc Foundation, which financed research into diabetes (the disease that had claimed his daughter Marilyn in 1973), arthritis, and multiple sclerosis. The foundation expanded its mission to alcoholism treatment, and then to support numerous institutions in Chicago, including hospitals, the planetarium, the zoo, educational programs for inmates at the Cook County jail, and museums. Then there were Ronald McDonald Houses, which provide low-cost lodging for families of children undergoing treatment for life-threatening diseases in cities around the country. One cause Kroc steadfastly refused to support was any college. "I've been wooed by some of the finest universities in the land, but I tell them they will not get a cent from me unless they put in a trade school. . . . There are too many baccalaureates and too few butchers." But his sentiments didn't stop him from accepting an honorary degree from Dartmouth College in 1977. By any measure, even one he distained, the man had arrived.

Kroc's health went into decline in the late 1970s, and he died of heart failure on January 14, 1984, in San Diego. Joan lived until 2003, and although she remained a private woman, she earned deep respect and affection as one of the nation's most generous philanthropists. When she passed away, she left the Salvation Army a staggering \$1.5 billion and National Public Radio \$200 million, and among

numerous other gifts to establish institutes to promote non-violent conflict resolution and peace. Kroc's billions will benefit the world for years to come.

Unlike some other great business leaders, Ray Kroc was not a complex man. If he ever harbored turbulent fears or regrets, no one noticed. What you saw was what you got. That was plenty - a self-made giant who changed a key chunk of American culture. There was no magic to his success. It all came down to tasty food delivered quickly at a good price. But getting to that point of sale and satisfaction entailed a rare blend of intelligence, optimism, drive, and common sense.

Lessons

Here is Ray Kroc's own recipe for success: "Press On: Nothing in the world can take the place of persistence. Talent will not; nothing is more common than unsuccessful men with talent. Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence and determination alone are omnipotent."

Instead of ending with his death, Ray Kroc's persistence is self-renewing. By now, McDonald's has grown to more than 34,000 restaurants serving more than 69 million people in 119 countries. A close look at Ray Kroc's career can be helpful to your own career. Here are some basic Kroc rules for business success, not only in our time, but probably any other.

Keep it simple.

We live in a wired world flooded with extraneous information. Know what your business needs to thrive.

Ignore the rest. Kroc never took his eye off the key strengths that made McDonald's work. Follow his lead.

Hire your weakness.

Kroc capitalized on his strong suits - passion, persistence, salesmanship. He was less interested in the tedious details of structuring deals. To handle them, he paid top dollar for the best financial minds he could find. Identify your weaknesses. Hire people far better qualified to solve them you are.

Take your cues from the bottom.

Kroc ran an organization that wasn't top-heavy. He knew that his frontline managers, those actually running the restaurants, had the most reliable information. He sought their opinions and responded to their ideas. Find out who in your organization is closest to your customers and has the best information. Find them and bring them into the loop.

Get out of the office.

Kroc was famous for paying unannounced visits to his restaurants. There is simply no substitute for seeing things for yourself - and for being seen by your people. The view from the top may be cushy, but it's distorted and often unreliable.

Smile.

Sure, it sounds almost simple-minded. But the human face is said to have dozens of muscles and mobilizing them in your favor is a competitive advantage Kroc discovered as a teenager manning a soda fountain. If you're pleasant, positive, enthusiastic, and charming you will sell more of whatever you're selling. Ignore this basic human truth at your peril.

Customize your pitch.

Kroc learned each customer's specific needs and wants, whether he was selling them ribbons and notions, paper cups, or milkshake mixers. Take time to understand each of your customers. Do some research, put yourself in their shoes. Then tailor your offering accordingly.

Partner with your suppliers.

Kroc was brilliant when it came to forging mutually beneficial alliances with his suppliers. He was an open book with them, honest and forthright. He made them understand that if he did well, they did well. Look carefully at your relationships with your suppliers. How can you increase their buy-in?



Chairwoman, CEO, and Publisher
Donna Sammons Carpenter

President and Associate Publisher
Maurice Coyle

Chief Financial Officer
Cindy Butler Sammons

Managing Editor
Molly Jones

Art Director
Matthew Pollock

Senior Editors
Ruth Hlavacek
Larry Martz
William Souder
Sebastian Stuart

Associate Editors
Robert W. McCune
Val Pendergrast

Chairwoman Emeritus
Juanita C. Sammons





McDonald's